

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-398

For: County Offices

**AgPreference, ACA
Tax ID # 73-0582430
Preferred Lender Program Status**

Approved by: State Executive Director



1 OVERVIEW

A

Background

2-FLP governs the processing and servicing of guaranteed loans. The Preferred Lender Program (PLP) allows lenders to originate and service guaranteed loans as they do their non-guaranteed loans.

B

Purpose

The purpose of this notice is to:

- Announce PLP status approval by the Deputy Administrator Farm Loan Programs to AgPreference, ACA.
- Provide guidance and direction to staff to ensure continuous service to the Lender.

C

Contact

Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the State Office.

D

Filing Instructions

This notice should be filed with the FLP series Notices.

Disposal Date	Distribution
March 17, 2008	Farm Loan Program Teams, County Offices, DD's, COR's

OK Notice FLP-398

2 ACTION

A

County Office Action

Attached is a copy of the AgPreference, ACA Credit Management System (CMS). The PLP status is in effect for the 5-year period of March 17, 2003, to March 17, 2008.

PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. Any action not addressed in the CMS will then be in accordance with 2-FLP as a CLP lender.

The County Office shall develop and maintain an operational file on each lender. This file will contain the information outlined in 2-FLP Par. 48 B, Operational File.

B

Loan Making

Only AgPreference, ACA employees listed in the CMS assigned to the Guaranteed FLP PLP Credit Team can submit guaranteed loan applications. All PLP guaranteed loan applications should be filed with the Farm Loan Manager servicing the county, which has been designated as the centralized PLP application-processing county.

Under Par. 83 B, PLP applications must be approved or rejected and the lender also notified of the decision within 14 calendar days of the complete application.

C

Loan Servicing

All PLP guaranteed loans, once closed, shall be sent to the Farm Loan Manager servicing the county where the borrower's principal residence on the farm is located. If the borrower's residence is not located on the farm or the borrower is an entity, the loan will be serviced in the county where the farm or major portion of the farm is located, unless otherwise approved by the State Office.

If not covered under the CMS, AgPreference, ACA must follow the servicing requirements for CLP lenders found in 2-FLP Handbook.

All loan servicing actions on existing guaranteed loans will be based on the current CMS in effect.

D

OK Notice FLP-398

**PLP Designated
Loan Officers**

Following is a complete list of persons designated to be involved with the FSA Guaranteed Loan Program for AgPreference, ACA, as outlined in their CMS:

Russell Allard, Senior Vice President
Jack Stone, Vice President
Ira Hopkins, Vice President
Diane R. Beach, Vice President
Jonrob Challacombe, Loan Officer
Gregory A. Durbin, Credit Analyst

E

CMS Interpretation

Contact the Guaranteed FLP Section at the State Office for any assistance and/or guidance in regards to the interpretation of AgPreference, ACA PLP Lender's Agreement/Credit Management System (CMS).

MAR 17 2003

Mr. Russell Allard
Senior Vice President
Chief Credit Officer
AgPreference, ACA
Post Office Box 8090
Altus, Oklahoma 73522-8090

Dear Mr. Allard:

We are pleased to inform you that AgPreference, ACA has been approved as a Preferred Lender for Farm Service Agency (FSA) guaranteed loans. Enclosed are your Preferred Lender Program (PLP) certificate, copy of the signed Lender's Agreements, for the PCA and FLCA, Credit Management System summary, and PLP stickers.

We anticipate that PLP will greatly improve the availability of agricultural credit. We look forward to working with you and the other officials of AgPreference, ACA to provide needed assistance to the nation's family farmers and ranchers.

Thank you for your interest and participation in FSA's guaranteed loan programs.

Sincerely,

/s/ Carolyn B. Cooksie

Carolyn B. Cooksie
Deputy Administrator for
Farm Loan Programs

Enclosures

cc: Jim Reese/SED OK

FSA-1980-38

(06-09-99)

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency**LENDER'S AGREEMENT**

See page 6 for Privacy Act and Public Burden Statements.

The purpose of this Agreement is to establish the lender as an approved participant in the guaranteed loan programs of the Farm Service Agency, U.S. Department of Agriculture. This Agreement provides the terms and conditions for originating and servicing such loans, including lines of credit. Provide the requested information, read this agreement in its entirety and sign in the space on the last page. Your signature indicates consent with this agreement.

Part A - Background Information

1. Lender's Name and Mailing Address

AgPreference Credit Association, PCA
Post Office Box 8090
Altus, Oklahoma 73522-8090

2. Tax Identification Number

73-0582430

3. Telephone Number (include area code)

(580) 482-3030

4. This agreement establishes the above lender as a:

☒

Preferred Lender (PLP)

☐

Certified Lender (CLP)

☐

Standard Eligible Lender (SEL)

5. The following suboffices of the lender are covered under this agreement:

☒

All Offices

6. The lender is authorized to submit loan guarantees in the following FSA Offices:

Entire state of Oklahoma.

Part B - Duties and Responsibilities of FSA("Agency")

1. **Payment of Claims** - Agency agrees to make payment on its claims in accordance with the terms of the guarantee and Agency regulations in 7 C.F.R. part 762. The maximum loss payment may not exceed the amount determined in the guarantee, including the percentage of principal and any accrued interest, protective advances, and emergency advances. The guarantee is supported by the full faith and credit of the United States and is incontestable except under the circumstances of fraud or misrepresentation of which the lender has actual knowledge at the execution of the guarantee or which the lender participates in or condones.
2. **Personnel Available for Consultation** - Agency shall make personnel available for consultation on interpretations of Agency regulations and guidelines. The lender may consult with Agency personnel regarding unusual underwriting, loan closing, and loan liquidation questions.

Part C - General Requirements of the Lender

1. **Eligibility to Participate** - The lender must meet the requirement contained in 7 C.F.R. part 762 and be approved by the Agency to be a participant in the Guaranteed Loan Program.
2. **Knowledge of Program Requirements** - The lender is required to obtain and keep itself informed of all program regulations and guidelines, including all amendments and revisions. The lender must establish and maintain adequate and written internal policies for loan origination and servicing to meet these requirements. These policies will be made available to the Agency for review when requested.
3. **Notification** - The lender shall immediately notify the Agency in writing if the lender:
 - a. Becomes insolvent;
 - b. Has filed for any type of bankruptcy protection, has been forced into involuntary bankruptcy, or has requested an assignment for the benefit of creditors;
 - c. Has taken any action to cease operations, or to discontinue servicing or liquidating any or all of its portfolio guaranteed by the Government;
 - d. Has changed its name, location, address, tax identification number, or corporate structure;
 - e. Has been debarred, suspended, or sanctioned in connection with its participation in any Federal guaranteed program; or
 - f. Has been debarred, suspended, or sanctioned by any Federal or State licensing or certification authority.
4. **Employee Qualifications** - The lender shall maintain a staff that is well trained and experienced in origination and loan servicing functions, as necessary to ensure the capability of performing all the acts within its authority.
5. **Conflict of Interest** - When a lender applies for a guaranteed loan, the lender will inform the Agency in writing of any relationships which could result in a conflict of interest or the appearance of a conflict of interest. Reportable relationships include:
 - a. The lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest in the loan applicant or borrower.
 - b. The loan applicant or borrower, a relative of the loan applicant or borrower, anyone residing in the household of the loan applicant or borrower, any officer, director, stockholder or other owner of the loan applicant or borrower holds any stock or other evidence of ownership in the lender.
 - c. The loan applicant or borrower, a relative of the loan applicant or borrower, or anyone residing in the household of the loan applicant or borrower is an Agency employee.
 - d. The officers, director, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners of the lender having substantial business dealings (other than in the normal course of business) with the loan applicant or borrower.
 - e. The lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.

Part D - Underwriting Requirements**1. Responsibility**

The lender is responsible for originating, servicing, and collecting all guaranteed loans in accordance with Agency regulations.

2. Origination Process

- a. General Eligibility. The lender shall make a preliminary determination whether loan applicants meet the general eligibility requirements in Agency regulations. Agency will make the final determination.

Part D - Underwriting Requirements (continued)

- b. Delinquency on Federal Debt. The lender shall determine whether the loan applicant is delinquent on any Federal debt. The lender shall use credit reports and any other credit history in making this determination. If the loan applicant is delinquent on or a judgment debtor on any Federal debt, processing of the application may only continue in accordance with Agency regulations.
 - c. Appraisals of Collateral. The lender shall ensure that the value of any collateral property or property to be purchased is determined by a qualified appraiser, including a certified appraiser when required by law or regulation.
 - d. Change in Borrower's Condition. Before the Agency issues a loan guarantee, the lender will certify that there has been no adverse change in the borrower's condition, financial or otherwise, since submission of the application for guaranteed loan. For use in this provision alone, the term "borrower" includes any member, joint operator, partner or stockholder.
 - e. Limitation on Guarantee. Late charges of any kind including default charges and default interest will not be covered by the guarantee.
3. **Loan Closing** - All loans guaranteed by the Agency shall be closed by attorneys, escrow companies, escrow departments of lending institutions, or other persons, or entities skilled and experienced in conducting loan closings. The lender shall:
- a. Ensure funds for the particular loan or line of credit will be used only for the purposes authorized in Agency regulations and as contained in the conditional commitment;
 - b. Ensure that documents, including the mortgage and any security agreements, chattel mortgages or equivalent documents relating to it have been properly signed, are valid and contain terms enforceable by the lender;
 - c. Ensure that all security with appropriate lien priorities is obtained in accordance with the conditional commitment and Agency regulations;
 - d. Ensure that all closing documents required to be recorded are recorded accurately, in the appropriate offices, and in a timely and accurate manner;
 - e. Ensure that security interests are perfected in collateral according to applicable regulatory requirements and procedures;
 - f. Ensure that all required hazard insurance will be obtained in accordance with Agency regulations or is now in effect;
 - g. Collect all fees and costs due and payable by the borrower in the course of the loan transaction and disburse payment directly to the parties for services rendered;
 - h. Ensure that construction, relocation, repairs, or development will be complete in accordance with applicable drawings and specifications;
 - i. Ensure the borrower has marketable title to security property now owned, and will obtain such title to any additional property to be acquired with loan funds, subject only to the instruments securing the loan to be guaranteed and any other exceptions set forth in Agency regulations;
 - j. The entire loan will be secured equally with the same security and the same lien priority for both the guaranteed and unguaranteed portions of the loan, under the assurance that the unguaranteed portion of the loan will not be paid first nor given priority over the guaranteed portion of the loan;
 - k. Submit the required guarantee fee with the guaranteed loan closing report.
4. **Restriction and Disclosure of Lobbying Activities** - If any funds have been or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or any employee of a Member of Congress in connection with this commitment providing for the United States to guarantee a loan, the undersigned shall complete and submit Standard Form - LLL, "Disclosure of Lobbying Activities," in accordance with its instructions. Submission of this statement is a prerequisite for making or entering into any transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

Part E - Servicing Requirements

- 1. **Responsibilities** - The lender will service the entire loan as mortgagee and secured party of record in a reasonable and prudent manner, notwithstanding the fact that another party (holder) may hold a portion of the loan.
- 2. **Supervision** - The lender's responsibilities regarding borrower supervision include, but are not limited to, the following:
 - a. Ensure loan funds are not used for any unauthorized purpose.
 - b. Ensure borrower compliance with the covenants and provisions provided in the note, loan agreement, security instruments, any other agreements, and 7 C.F.R. part 762.
 - c. Perform an annual analysis of the borrower's financial condition to determine the borrower's progress when required by Agency regulations.

Part E - Servicing Requirements (continued)

- d. Account for all collateral.
 - e. Discuss any observations about the farm business with the borrower.
 - f. Ensure the borrower and any party liable for the loan is not released from liability for all or any part of the loan, except in accordance with Agency regulations.
3. **Reporting Requirements** - The lender recognizes that the Agency, as guarantor, has a vital interest in ensuring that all acts performed by the lender regarding the subject loans are performed in compliance with this agreement and Agency regulations. Information on the status of guaranteed loans is necessary for this purpose, as well as to satisfy budget and accounting reporting required by the Department of Treasury and the Office of Management and Budget. The lender agrees to provide Agency with all the data required under Agency regulations and any additional information necessary to monitor the status of its guaranteed loan portfolio, and to satisfy external reporting requirements.
- The lender also agrees to provide to the Agency upon request, copies of audited financial statements, reports on internal controls, copies of compliance audits, and such other information that may be required of the Agency to monitor the lender's performance.
4. **Negligent Servicing** - The guarantee cannot be enforced by the lender to the extent a loss results from a violation of usury laws or negligent servicing regardless of when the Agency discovers such violation or negligence. Negligent servicing is defined as the failure to perform services which a reasonably prudent lender would perform in servicing its own portfolio of loans that are not guaranteed. The term includes both a failure to act and not acting in a timely manner to include actions taken up to the time of loan maturity or until final loss is paid.
5. **Payments** - Payments from the borrower shall be reviewed by the lender and processed upon receipt according to Agency regulations, and may include escrow premiums for hazard insurance and real estate taxes. The lender shall promptly disburse to any holder the holder's pro rata share according to their respective interests in the loan, less only the lender's servicing fee.
6. **Collateral**
- a. Insurance. The lender shall ensure that adequate insurance is maintained in accordance with Agency regulations, including the maintenance of property, casualty, flood, and hazard insurance containing a loss payable clause in favor of the lender as the mortgagee or secured party.
 - b. Escrow Accounts. The lender may establish separate escrow accounts. All escrow accounts must meet applicable Federal and State laws and regulations, and must be fully insured by the FDIC or cross collateralized with unencumbered Government Securities.
 - c. Inspection. The lender shall inspect the collateral as often as necessary to properly service the loan and ensure the collateral is being properly maintained.
 - d. Taxes. The lender shall ensure that taxes, assessments, or ground rents against or affecting collateral are paid.
7. **Delinquent Accounts**
- a. A guaranteed loan is in default after 30 days have passed and the borrower has not made a payment as due or has otherwise violated a loan agreement. The lender is responsible for resolution of the default. The lender will notify the Agency using an FSA default status report when a borrower is 45 days past due or otherwise in default. This report will be submitted every 60 days thereafter and will contain a summary of collection, restructuring or liquidation steps taken since the previous report.
 - b. The lender may take actions to correct the default as provided in 7 C.F.R. part 762. A loan that has been sold on the secondary market can only be restructured if the loan is repurchased or upon written concurrence from the holder.
 - c. The lender will work in good faith with the borrower to allow them to cure the default, where reasonable. The lender must participate in mandatory farmer-creditor mediation in accordance with 7 C.F.R. part 762, State law and the rules that govern the mediation program that operates in the State in which the borrower resides.
 - d. The lender must consider the borrower for interest assistance as provided in 7 C.F.R. part 762. If the lender determines that default can be cured by rescheduling the loan with interest assistance, lender will request a determination of the borrower's eligibility by the Agency. Liquidation or foreclosure cannot be initiated until 60 days after consideration.
8. **Sales or Participation**
- a. The guaranteed portion of loans may be sold in accordance with 7 C.F.R. part 762. Lines of credit cannot be sold, but may be participated with other lenders.
 - b. When a loan has been sold, the holder can demand that the lender repurchase the unpaid guaranteed portion of a loan in accordance with the FSA assignment of guarantee.

Part E - Servicing Requirements (continued)

- c. If the lender is unable to repurchase, the holder may make a demand for repurchase to the Agency. Repurchase by the Agency in no way alters lender responsibilities to the loan under this agreement or the loan guarantee. A restructuring action may not be executed once the Agency has repurchased the guaranteed portion of the loan and within 180 days the lender must reimburse the Agency for the repurchase or liquidate the loan in accordance with Agency regulations. Lender must send the pro rata share of the borrower's payments directly to the Agency until liquidation is complete.
 - d. Failure to reimburse the Agency within 180 days for repurchase, if not waived by the Agency, is a violation of this agreement.
9. **Default/Liquidation**
- a. Protective Advances. Protective advances must constitute a debt of the borrower to the lender and be secured by the security instrument. Agency written authorization is required for protective advances in accordance with the terms and amounts specified by 7 C.F.R. part 762 regulations.
 - b. Additional Loan or Advances. In cases of a Line of Credit, the lender may make an emergency advance when a line of credit has reached its ceiling and additional funds are needed to prevent an imminent loss of crops or livestock that would take place if the emergency advance were not made. The lender must provide Agency with an analysis as required by Agency regulations.
 - c. Future Recovery. After a loan has been liquidated and a final loss has been paid by the Agency, any future funds which may be recovered from the borrower will be pro-rated between the Agency and the lender.
 - d. Bankruptcy. The lender is responsible for protecting the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings. Loss payments on bankruptcy cases will be processed according to the terms described in Agency regulations.
 - e. Liquidation. Liquidations must receive prior Agency concurrence when required by regulations.
 - f. Loss Claims. The lender will submit an estimated loss claim to the Agency in the event liquidation will exceed 90 days. Estimated and final claims will be processed in accordance with the terms described in Agency regulations.
10. **Servicer** - If the lender contracts for servicing of guaranteed loans, the lender is not relieved of responsibility for proper servicing of the loans.

Part F - Agency Reviews of Lender's Operations

The Agency may conduct reviews, including on-site reviews, of the lender's operations and the operations of any agent of the lender, for the purpose of verifying compliance with this agreement and Agency regulations and guidelines. These reviews may include, but are not limited to, audits of case files; interviews with owners, managers, and staff; audits of collateral; and inspections of the lender's and its agents underwriting, servicing, and liquidation guidelines. The lender and its agents shall provide access to all pertinent information to allow the Agency, or any party authorized by the Agency, to conduct such reviews.

Part G - Conformance to Standards

1. The lender shall conform to the standards outlined in this agreement and Agency regulations for participation in the Agency's guaranteed loan program. CLP and PLP must maintain compliance with the criteria set forth in 7 C.F.R. part 762. The Agency shall determine lender adherence to the standards based on:
 - a. Adequacy in meeting requirements for origination, servicing, and liquidation of loans and lines of credit, including protection of collateral;
 - b. Satisfaction of the reporting requirements of the Agency;
 - c. Success in operating in a sound, prudent and businesslike manner;
 - d. Portfolio performance compared to overall performance of the Agency's guaranteed loan program; and
 - e. Results of on-site reviews of the underwriting and servicing performed by the lender.
2. **Determination of Non-Conformance** - The Agency shall carefully consider the circumstances and available facts in determining whether there is a pattern of lender non-conformance with applicable standards. The Agency shall determine the propriety of any decision made by the lender based on facts available at the time the specific action was taken. It is understood by the Agency and intended by this agreement that the lender has the authority to exercise reasonable judgement in performing acts within its authority. However, the Agency reserves the right to question any act performed or conclusion drawn that is inconsistent with this agreement or Agency regulations or prudent lending practices.
3. **Agency Action** - If the lender is determined to be in non-conformance with any Federal law, State law, Agency regulation, or guideline, or the terms of this agreement, the Agency may take action in accordance with its laws and regulations.
4. **Lender Right of Appeal** - The Agency will provide the lender an opportunity to appeal adverse Agency actions in accordance with Agency regulations.

Part H - List of Agency Regulations and Guidelines and Designation of Lender Authority to Perform Certain Acts

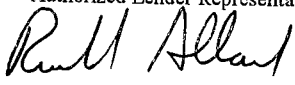
1. **List of Agency Regulations** - The guaranteed loan program is administered under 7 C.F.R. part 762. The lender is required to comply with these regulations as well as any future amendments not inconsistent with this Agreement.
2. **Authority to Perform Certain Acts** - Agency regulations describe the authorities and responsibilities for lenders. In addition, PLP will process and service loans as described in their application for PLP status approved by the Agency. This application is described in the preferred lender program attachment to this agreement. The lender further agrees to inform the Agency and obtain approval on changes to any policy or process described in the application for PLP status.

Part I - Duration and Modification

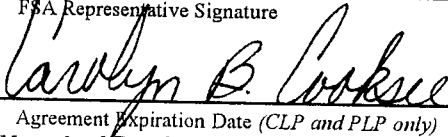
1. **Duration and Termination**
 - a. **Duration and Agreement** - For CLP and PLP, the Agreement is valid for five years unless terminated by the lender or the Agency as described below or revoked according to Agency regulations. For SELs, this agreement will be valid indefinitely unless terminated by the lender or Agency as described below.
 - b. **Modification of Agreement** - This agreement may be modified or extended only in writing and by consent of all parties.
 - c. **Termination by Agency** - This agreement may be terminated by the Agency in accordance with Agency regulations.
 - d. **Termination by the Lender** - This agreement may be terminated by the lender by providing 30 days written notice to the Agency.
 - e. **Effect of Termination on Responsibilities and Liabilities** - Responsibilities or liabilities that existed before the termination of the agreement with regard to outstanding guarantees will continue to exist after termination unless the Agency expressly releases the lender from such responsibilities or liabilities in writing. The lender shall remain obligated to service and liquidate the guaranteed loans remaining in the portfolio unless and until the Agency or the lender transfers the loans. These requirements concerning loan management by the lender and rights of the Agency under this agreement shall remain in effect whether the agreement is terminated by the lender or Agency.
 - f. **Revocation of CLP or PLP status** - If the Agency revokes CLP or PLP status, loans made while the lender held this status must continue to be serviced under this agreement and according to Agency regulations applying to SELs or CLP, whichever status the lender then holds.
2. **Entire Agreement** - This agreement, Parts A through K inclusive along with any attachments, and any regulations or guidelines incorporated by reference shall constitute the entire agreement. There are no other agreements, written or oral, regarding the terms in this agreement which are or shall be binding on the parties.

Part J - Certification

I certify that I have read and understand the requirements in the agreement, and in 7 C.F.R. part 762, and agree to the participation requirements and other provisions of this agreement.

1. Name and Title of Lender Representative Russell Allard Sr. Vice President/Chief Credit Off.	2. Authorized Lender Representative Signature  Date 3/10/03
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Part K - FSA Use Only

1. Name and Title of FSA Representative Carolyn B. Cooksie Deputy Administrator for Farm Loan Programs	2. FSA Representative Signature  Date 3/17/03
3. Effective Date of Agreement March 17, 2003	4. Agreement Expiration Date (CLP and PLP only) March 17, 2008

NOTE: The following statements are made in accordance with the Privacy Act of 1974 (5 USC 552a): the Farm Service Agency (FSA) is authorized by the Consolidated Farm and Rural Development Act (7 USC 1921 et seq.) and the regulations promulgated thereunder, to solicit the information requested on this agreement. The information requested is necessary for FSA to determine eligibility for guarantee or other financial assistance, service your guarantee, and conduct statistical analyses. Supplied information may be furnished to other Department of Agriculture agencies, the Department of the Treasury, the Department of Justice or other law enforcement agencies, the Department of Defense, the Department of Housing and Urban Development, the Department of Labor, the United States Postal Service, or other Federal, State, or local agencies as required or permitted by law. In addition, information may be referred to interested parties under the Freedom of Information Act (FOIA), to financial consultants, advisors, lending institutions, packagers, agents, and private or commercial credit sources, to collection or servicing contractors, to credit reporting agencies, to private attorneys under contract with FSA or the Department of Justice, to business firms in the trade area that buy chattel or crops or sell them for commission, to Members of Congress or Congressional staff members, or to courts or adjudicative bodies. Disclosure of the information requested is voluntary. However, failure to disclose certain items of information requested, including your Social Security Number or Federal Tax Identification Number, may result in a delay in the processing of an application or its rejection.

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0560-0155. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. RETURN THIS COMPLETED FORM TO YOUR LOCAL FSA OFFICE.

REPRODUCE LOCALLY. Include form number and date on reproductions.

Form Approved - OMB No. 0560-0155

FSA-1980-38

(06-09-99)

U.S. DEPARTMENT OF AGRICULTURE
Farm Service Agency

LENDER'S AGREEMENT

See page 6 for Privacy Act and Public Burden Statements.

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1. Lender's Name and Mailing Address

AgPreference Credit Association, FLCA
Post Office Box 8090
Altus, Oklahoma 73522-8090

2. Tax Identification Number

73-0581040

3. Telephone Number (include area code)

(580) 482-3030

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All Offices

6. The lender is authorized to submit loan guarantees in the following FSA Offices:

Entire state of Oklahoma.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410 or call (202) 720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.

Part B - Duties and Responsibilities of FSA("Agency")

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 - a. Becomes insolvent;
 - b. Has filed for any type of bankruptcy protection, has been forced into involuntary bankruptcy, or has requested an assignment for the benefit of creditors;
 - c. Has taken any action to cease operations, or to discontinue servicing or liquidating any or all of its portfolio guaranteed by the Government;
 - d. Has changed its name, location, address, tax identification number, or corporate structure;
 - e. Has been debarred, suspended, or sanctioned in connection with its participation in any Federal guaranteed program; or
 - f. Has been debarred, suspended, or sanctioned by any Federal or State licensing or certification authority.
4. **Employee Qualifications** - The lender shall maintain a staff that is well trained and experienced in origination and loan servicing functions, as necessary to ensure the capability of performing all the acts within its authority.
5. **Conflict of Interest** - When a lender applies for a guaranteed loan, the lender will inform the Agency in writing of any relationships which could result in a conflict of interest or the appearance of a conflict of interest. Reportable relationships include:
 - a. The lender or its officers, directors, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners having a financial interest in the loan applicant or borrower.
 - b. The loan applicant or borrower, a relative of the loan applicant or borrower, anyone residing in the household of the loan applicant or borrower, any officer, director, stockholder or other owner of the loan applicant or borrower holds any stock or other evidence of ownership in the lender.
 - c. The loan applicant or borrower, a relative of the loan applicant or borrower, or anyone residing in the household of the loan applicant or borrower is an Agency employee.
 - d. The officers, director, principal stockholders (except stockholders in a Farm Credit System institution that have stock requirements to obtain a loan), or other principal owners of the lender having substantial business dealings (other than in the normal course of business) with the loan applicant or borrower.
 - e. The lender or its officers, directors, principal stockholders, or other principal owners have substantial business dealings with an Agency employee.

Part D - Underwriting Requirements1. **Responsibility**

The lender is responsible for originating, servicing, and collecting all guaranteed loans in accordance with Agency regulations.

2. **Origination Process**

- a. General Eligibility. The lender shall make a preliminary determination whether loan applicants meet the general eligibility requirements in Agency regulations. Agency will make the final determination.

Part D - Underwriting Requirements (continued)

- b. Delinquency on Federal Debt. The lender shall determine whether the loan applicant is delinquent on any Federal debt. The lender shall use credit reports and any other credit history in making this determination. If the loan applicant is delinquent on or a judgment debtor on any Federal debt, processing of the application may only continue in accordance with Agency regulations.
 - c. Appraisals of Collateral. The lender shall ensure that the value of any collateral property or property to be purchased is determined by a qualified appraiser, including a certified appraiser when required by law or regulation.
 - d. Change in Borrower's Condition. Before the Agency issues a loan guarantee, the lender will certify that there has been no adverse change in the borrower's condition, financial or otherwise, since submission of the application for guaranteed loan. For use in this provision alone, the term "borrower" includes any member, joint operator, partner or stockholder.
 - e. Limitation on Guarantee. Late charges of any kind including default charges and default interest will not be covered by the guarantee.
3. **Loan Closing -** All loans guaranteed by the Agency shall be closed by attorneys, escrow companies, escrow departments of lending institutions, or other persons, or entities skilled and experienced in conducting loan closings. The lender shall:
- a. Ensure funds for the particular loan or line of credit will be used only for the purposes authorized in Agency regulations and as contained in the conditional commitment;
 - b. Ensure that documents, including the mortgage and any security agreements, chattel mortgages or equivalent documents relating to it have been properly signed, are valid and contain terms enforceable by the lender;
 - c. Ensure that all security with appropriate lien priorities is obtained in accordance with the conditional commitment and Agency regulations;
 - d. Ensure that all closing documents required to be recorded are recorded accurately, in the appropriate offices, and in a timely and accurate manner;
 - e. Ensure that security interests are perfected in collateral according to applicable regulatory requirements and procedures;
 - f. Ensure that all required hazard insurance will be obtained in accordance with Agency regulations or is now in effect;
 - g. Collect all fees and costs due and payable by the borrower in the course of the loan transaction and disburse payment directly to the parties for services rendered;
 - h. Ensure that construction, relocation, repairs, or development will be complete in accordance with applicable drawings and specifications;
 - i. Ensure the borrower has marketable title to security property now owned, and will obtain such title to any additional property to be acquired with loan funds, subject only to the instruments securing the loan to be guaranteed and any other exceptions set forth in Agency regulations;
 - j. The entire loan will be secured equally with the same security and the same lien priority for both the guaranteed and unguaranteed portions of the loan, under the assurance that the unguaranteed portion of the loan will not be paid first nor given priority over the guaranteed portion of the loan;
 - k. Submit the required guarantee fee with the guaranteed loan closing report.
4. **Restriction and Disclosure of Lobbying Activities -** If any funds have been or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or any employee of a Member of Congress in connection with this commitment providing for the United States to guarantee a loan, the undersigned shall complete and submit Standard Form - LLL, "Disclosure of Lobbying Activities," in accordance with its instructions. Submission of this statement is a prerequisite for making or entering into any transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

Part E - Servicing Requirements

- 1. **Responsibilities -** The lender will service the entire loan as mortgagee and secured party of record in a reasonable and prudent manner, notwithstanding the fact that another party (holder) may hold a portion of the loan.
- 2. **Supervision -** The lender's responsibilities regarding borrower supervision include, but are not limited to, the following:
 - a. Ensure loan funds are not used for any unauthorized purpose.
 - b. Ensure borrower compliance with the covenants and provisions provided in the note, loan agreement, security instruments, any other agreements, and 7 C.F.R. part 762.
 - c. Perform an annual analysis of the borrower's financial condition to determine the borrower's progress when required by Agency regulations.

Part E - Servicing Requirements (continued)

- d. Account for all collateral.
 - e. Discuss any observations about the farm business with the borrower.
 - f. Ensure the borrower and any party liable for the loan is not released from liability for all or any part of the loan, except in accordance with Agency regulations.
3. **Reporting Requirements** - The lender recognizes that the Agency, as guarantor, has a vital interest in ensuring that all acts performed by the lender regarding the subject loans are performed in compliance with this agreement and Agency regulations. Information on the status of guaranteed loans is necessary for this purpose, as well as to satisfy budget and accounting reporting required by the Department of Treasury and the Office of Management and Budget. The lender agrees to provide Agency with all the data required under Agency regulations and any additional information necessary to monitor the status of its guaranteed loan portfolio, and to satisfy external reporting requirements.
- The lender also agrees to provide to the Agency upon request, copies of audited financial statements, reports on internal controls, copies of compliance audits, and such other information that may be required of the Agency to monitor the lender's performance.
4. **Negligent Servicing** - The guarantee cannot be enforced by the lender to the extent a loss results from a violation of usury laws or negligent servicing regardless of when the Agency discovers such violation or negligence. Negligent servicing is defined as the failure to perform services which a reasonably prudent lender would perform in servicing its own portfolio of loans that are not guaranteed. The term includes both a failure to act and not acting in a timely manner to include actions taken up to the time of loan maturity or until final loss is paid.
5. **Payments** - Payments from the borrower shall be reviewed by the lender and processed upon receipt according to Agency regulations, and may include escrow premiums for hazard insurance and real estate taxes. The lender shall promptly disburse to any holder the holder's pro rata share according to their respective interests in the loan, less only the lender's servicing fee.
6. **Collateral**
- a. Insurance. The lender shall ensure that adequate insurance is maintained in accordance with Agency regulations, including the maintenance of property, casualty, flood, and hazard insurance containing a loss payable clause in favor of the lender as the mortgagee or secured party.
 - b. Escrow Accounts. The lender may establish separate escrow accounts. All escrow accounts must meet applicable Federal and State laws and regulations, and must be fully insured by the FDIC or cross collateralized with unencumbered Government Securities.
 - c. Inspection. The lender shall inspect the collateral as often as necessary to properly service the loan and ensure the collateral is being properly maintained.
 - d. Taxes. The lender shall ensure that taxes, assessments, or ground rents against or affecting collateral are paid.
7. **Delinquent Accounts**
- a. A guaranteed loan is in default after 30 days have passed and the borrower has not made a payment as due or has otherwise violated a loan agreement. The lender is responsible for resolution of the default. The lender will notify the Agency using an FSA default status report when a borrower is 45 days past due or otherwise in default. This report will be submitted every 60 days thereafter and will contain a summary of collection, restructuring or liquidation steps taken since the previous report.
 - b. The lender may take actions to correct the default as provided in 7 C.F.R. part 762. A loan that has been sold on the secondary market can only be restructured if the loan is repurchased or upon written concurrence from the holder.
 - c. The lender will work in good faith with the borrower to allow them to cure the default, where reasonable. The lender must participate in mandatory farmer-creditor mediation in accordance with 7 C.F.R. part 762, State law and the rules that govern the mediation program that operates in the State in which the borrower resides.
 - d. The lender must consider the borrower for interest assistance as provided in 7 C.F.R. part 762. If the lender determines that default can be cured by rescheduling the loan with interest assistance, lender will request a determination of the borrower's eligibility by the Agency. Liquidation or foreclosure cannot be initiated until 60 days after consideration.
8. **Sales or Participation**
- a. The guaranteed portion of loans may be sold in accordance with 7 C.F.R. part 762. Lines of credit cannot be sold, but may be participated with other lenders.
 - b. When a loan has been sold, the holder can demand that the lender repurchase the unpaid guaranteed portion of a loan in accordance with the FSA assignment of guarantee.

Part E - Servicing Requirements (continued)

- c. If the lender is unable to repurchase, the holder may make a demand for repurchase to the Agency. Repurchase by the Agency in no way alters lender responsibilities to the loan under this agreement or the loan guarantee. A restructuring action may not be executed once the Agency has repurchased the guaranteed portion of the loan and within 180 days the lender must reimburse the Agency for the repurchase or liquidate the loan in accordance with Agency regulations. Lender must send the pro rata share of the borrower's payments directly to the Agency until liquidation is complete.
 - d. Failure to reimburse the Agency within 180 days for repurchase, if not waived by the Agency, is a violation of this agreement.
9. **Default/Liquidation**
- a. Protective Advances. Protective advances must constitute a debt of the borrower to the lender and be secured by the security instrument. Agency written authorization is required for protective advances in accordance with the terms and amounts specified by 7 C.F.R. part 762 regulations.
 - b. Additional Loan or Advances. In cases of a Line of Credit, the lender may make an emergency advance when a line of credit has reached its ceiling and additional funds are needed to prevent an imminent loss of crops or livestock that would take place if the emergency advance were not made. The lender must provide Agency with an analysis as required by Agency regulations.
 - c. Future Recovery. After a loan has been liquidated and a final loss has been paid by the Agency, any future funds which may be recovered from the borrower will be pro-rated between the Agency and the lender.
 - d. Bankruptcy. The lender is responsible for protecting the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings. Loss payments on bankruptcy cases will be processed according to the terms described in Agency regulations.
 - e. Liquidation. Liquidations must receive prior Agency concurrence when required by regulations.
 - f. Loss Claims. The lender will submit an estimated loss claim to the Agency in the event liquidation will exceed 90 days. Estimated and final claims will be processed in accordance with the terms described in Agency regulations.
10. **Servicer** - If the lender contracts for servicing of guaranteed loans, the lender is not relieved of responsibility for proper servicing of the loans.

Part F - Agency Reviews of Lender's Operations

The Agency may conduct reviews, including on-site reviews, of the lender's operations and the operations of any agent of the lender, for the purpose of verifying compliance with this agreement and Agency regulations and guidelines. These reviews may include, but are not limited to, audits of case files; interviews with owners, managers, and staff; audits of collateral; and inspections of the lender's and its agents underwriting, servicing, and liquidation guidelines. The lender and its agents shall provide access to all pertinent information to allow the Agency, or any party authorized by the Agency, to conduct such reviews.

Part G - Conformance to Standards

1. The lender shall conform to the standards outlined in this agreement and Agency regulations for participation in the Agency's guaranteed loan program. CLP and PLP must maintain compliance with the criteria set forth in 7 C.F.R. part 762. The Agency shall determine lender adherence to the standards based on:
 - a. Adequacy in meeting requirements for origination, servicing, and liquidation of loans and lines of credit, including protection of collateral;
 - b. Satisfaction of the reporting requirements of the Agency;
 - c. Success in operating in a sound, prudent and businesslike manner;
 - d. Portfolio performance compared to overall performance of the Agency's guaranteed loan program; and
 - e. Results of on-site reviews of the underwriting and servicing performed by the lender.
2. **Determination of Non-Conformance** - The Agency shall carefully consider the circumstances and available facts in determining whether there is a pattern of lender non-conformance with applicable standards. The Agency shall determine the propriety of any decision made by the lender based on facts available at the time the specific action was taken. It is understood by the Agency and intended by this agreement that the lender has the authority to exercise reasonable judgement in performing acts within its authority. However, the Agency reserves the right to question any act performed or conclusion drawn that is inconsistent with this agreement or Agency regulations or prudent lending practices.
3. **Agency Action** - If the lender is determined to be in non-conformance with any Federal law, State law, Agency regulation, or guideline, or the terms of this agreement, the Agency may take action in accordance with its laws and regulations.
4. **Lender Right of Appeal** - The Agency will provide the lender an opportunity to appeal adverse Agency actions in accordance with Agency regulations.

Part H - List of Agency Regulations and Guidelines and Designation of Lender Authority to Perform Certain Acts

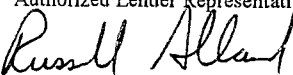
1. **List of Agency Regulations** - The guaranteed loan program is administered under 7 C.F.R. part 762. The lender is required to comply with these regulations as well as any future amendments not inconsistent with this Agreement.
2. **Authority to Perform Certain Acts** - Agency regulations describe the authorities and responsibilities for lenders. In addition, PLP will process and service loans as described in their application for PLP status approved by the Agency. This application is described in the preferred lender program attachment to this agreement. The lender further agrees to inform the Agency and obtain approval on changes to any policy or process described in the application for PLP status.

Part I - Duration and Modification**1. Duration and Termination**

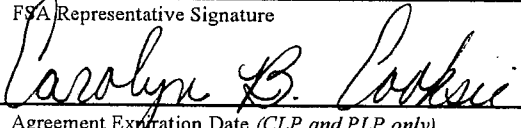
- a. **Duration and Agreement** - For CLP and PLP, the Agreement is valid for five years unless terminated by the lender or the Agency as described below or revoked according to Agency regulations. For SELs, this agreement will be valid indefinitely unless terminated by the lender or Agency as described below.
 - b. **Modification of Agreement** - This agreement may be modified or extended only in writing and by consent of all parties.
 - c. **Termination by Agency** - This agreement may be terminated by the Agency in accordance with Agency regulations.
 - d. **Termination by the Lender** - This agreement may be terminated by the lender by providing 30 days written notice to the Agency.
 - e. **Effect of Termination on Responsibilities and Liabilities** - Responsibilities or liabilities that existed before the termination of the agreement with regard to outstanding guarantees will continue to exist after termination unless the Agency expressly releases the lender from such responsibilities or liabilities in writing. The lender shall remain obligated to service and liquidate the guaranteed loans remaining in the portfolio unless and until the Agency or the lender transfers the loans. These requirements concerning loan management by the lender and rights of the Agency under this agreement shall remain in effect whether the agreement is terminated by the lender or Agency.
 - f. **Revocation of CLP or PLP status** - If the Agency revokes CLP or PLP status, loans made while the lender held this status must continue to be serviced under this agreement and according to Agency regulations applying to SELs or CLP, whichever status the lender then holds.
2. **Entire Agreement** - This agreement, Parts A through K inclusive along with any attachments, and any regulations or guidelines incorporated by reference shall constitute the entire agreement. There are no other agreements, written or oral, regarding the terms in this agreement which are or shall be binding on the parties.

Part J - Certification

I certify that I have read and understand the requirements in the agreement, and in 7 C.F.R. part 762, and agree to the participation requirements and other provisions of this agreement.

1. Name and Title of Lender Representative Russell Allard Sr. Vice President/Chief Credit Officer	2. Authorized Lender Representative Signature 	Date 3/10/03
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Part K - FSA Use Only

1. Name and Title of FSA Representative Carolyn B. Cooksie Deputy Administrator for Farm Loan Programs	2. FSA Representative Signature 	Date 3/17/03
3. Effective Date of Agreement March 17, 2003	4. Agreement Expiration Date (CLP and PLP only) March 17, 2008	

NOTE: The following statements are made in accordance with the Privacy Act of 1974 (5 USC 552a): the Farm Service Agency (FSA) is authorized by the Consolidated Farm and Rural Development Act (7 USC 1921 et seq.) and the regulations promulgated thereunder, to solicit the information requested on this agreement. The information requested is necessary for FSA to determine eligibility for guarantee or other financial assistance, service your guarantee, and conduct statistical analyses. Supplied information may be furnished to other Department of Agriculture agencies, the Department of the Treasury, the Department of Justice or other law enforcement agencies, the Department of Defense, the Department of Housing and Urban Development, the Department of Labor, the United States Postal Service, or other Federal, State, or local agencies as required or permitted by law. In addition, information may be referred to interested parties under the Freedom of Information Act (FOIA), to financial consultants, advisors, lending institutions, packagers, agents, and private or commercial credit sources, to collection or servicing contractors, to credit reporting agencies, to private attorneys under contract with FSA or the Department of Justice, to business firms in the trade area that buy chattel or crops or sell them for commission, to Members of Congress or Congressional staff members, or to courts or adjudicative bodies. Disclosure of the information requested is voluntary. However, failure to disclose certain items of information requested, including your Social Security Number or Federal Tax Identification Number, may result in a delay in the processing of an application or its rejection.

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0560-0155. The time required to complete this information collection is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. **RETURN THIS COMPLETED FORM TO YOUR LOCAL FSA OFFICE.**

PREFERRED LENDER PROGRAM CREDIT MANAGEMENT SYSTEM SUMMARY

PREFERRED LENDER PROGRAM CREDIT MANAGEMENT SYSTEM SUMMARY

**AgPreference, ACA
Altus, Oklahoma**

This attachment contains the credit management system requirements agreed to by AgPreference, ACA in Altus, Oklahoma. The following information summarizes the credit management system requirements provided in the Lender's November 1, 2002 request for Preferred Lender Status, with attachments and exhibits. Requirements for loan administration, servicing and reporting activities not specifically addressed in this attachment are governed by the attached Form FSA-1980-38, "Lender's Agreement," and 7 CFR 762.

I. GENERAL OPERATIONS

A. Local Service Area (LSA)

The LSA for the AgPreference, ACA is primarily six southwestern counties in Oklahoma that would include Jackson, Kiowa, Greer, Harmon, Tillman and Cotton. PLP status covers the State of Oklahoma.

Loans would be considered outside the normal loan area if loan servicing were limited. For example, integrated broiler or pork contractors where the production check is sent to the Lender could be considered. Livestock and chattel loans that are not cross-pledged with real estate are not desirable outside the service area due to extensive servicing demands. The Lender will contact the appropriate FSA State Office for guidance when submitting requests for guarantee outside of the local service area.

The primary commodities in the Lender's area are wheat, livestock, cotton, dairy, and forage crops.

B. Officers' Lending Authority

The Association's Board has set a policy to refrain from investing in any single borrower more than 10% of the Association's risk capital. The current internal lending limit is \$1,834,808. In instances where the credit is so strong and there is little risk, the 10% cap may be exceeded subject to Board notification. The CEO/President has the authority to approve loans meeting all credit standards up to the Association's legal lending limit of \$ 3,641,309. The Senior Vice President – Chief Lending Officer has the authority to approve loans up to the Association's internal lending limit. The Sr. VP-CLO has the responsibility to delegate lending authorities to the other loan officers.

The Association takes strident efforts to ensure there are no conflicts of interest. The Association's AICR group will review all insider loans for compliance of conflict of interest policies.

C. Policy Exceptions

Loans are expected to meet all of the Lender's established standard credit factors. Loans not meeting these standards may be considered on a case-by-case basis. If a credit standard is not met, the application must exhibit offsetting strong credit factors to be considered and may require an FSA guarantee. Deviations from standards will be fully justified and approved by the loan officer. If a FSA guarantee is requested, the exception and offsetting strengths will be clearly identified and the decisions justified in the narrative submitted to FSA.

D. Interest Rates, Loan Terms and Fees

The Lender will not charge its guaranteed loan customers rates that exceed those charged to the Lender's average farm loan customer who have similar types of loans. As a rule of thumb, variable interest rates are established at an annual rate of interest of the New York Prime rate plus 1 percent.

Repayment terms are based on the type of agriculture entity involved and cash flow stream. Payments are structured to be collected either annually, semi annually, or monthly. Loan terms will be dependent upon collateral type, loan purpose and the expected economic life of the collateral securing the loan. Lines of credit can be approved for up to 5 years and with repayment projected as farm production is received. New equipment and breeding livestock term loan's maturity date will not exceed 7 years. Loans secured by real estate may be amortized for up to 33 years.

Fees charged to guarantee customers will be the same as those charged to the Lender's non-guaranteed customers for similar transactions. Fee can be charged for appraisals and credit reports, and any fee paid to a government guarantee agency will be passed on to the borrower.

E. Internal Credit Review System

I. Philosophy

The Board of Directors (Board) believes in the establishment of effective systems of internal control over the Association's activities.

II. Purpose and Objective

The purpose of this policy is to set forth responsibility for the Association's system of internal control.

III. Scope

This policy applies to the Association and its wholly owned subsidiaries.

IV. Authority

The Board retains the authority to change or rescind this policy. However, except as may be required by law, the Board delegates management and examination authority to the President & CEO, who may re-delegate authorities as appropriate.

V. Policy Statement and Operating Principles

- A. Effective systems of internal controls will be developed, maintained, and periodically reviewed and evaluated to provide reasonable assurance that:
1. Assets are safeguarded;
 2. Information is timely and reliable;
 3. Operational efficiencies are promoted;
 4. Compliance with managerial policies, laws, regulations, and sound fiduciary principles is encouraged;
 5. Errors and irregularities are identified and properly addressed;
 6. Effective means exist to measure the results of operations.
- B. The development and maintenance of the systems of internal control over the financial, credit, credit review, collateral, and administrative functions are the responsibility of the Chief Executive Officer (CEO). This responsibility includes developing and maintaining an Internal Operations Review program and/or Internal Credit Review program to review and assess the Association's needs.
- C. Mr. Keith Crow, ARA, U.S. AgBank, conducts an independent review of the Appraisal Department according to all USPAP guidelines, annually. An established scope is set on each appraiser by the CEO, which establishes a percentage for all appraisal work to be reviewed. The following items are reviewed:
1. Continuing Education Requirements
 2. Certification
 3. Sales Database
 4. Time and Stress Study
 5. Policies and procedures, and,
 6. Real Estate and Chattel Appraisal Reports

The program(s) should include, at a minimum, the following standards:

1. Loan, loan-related assets, and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;

2. Asset quality classification standards to be utilized in accordance with a standardized classification system consistent among the Associations and the Farm Credit Bank of Wichita;
 3. Assessing credit administration, including the appraisal of collateral;
 4. Training required to initiate the program.
- D. The review and evaluation of the Association's system of internal controls is the responsibility of Harper, Rains, Stokes & Knight, PA. This responsibility includes development of an annual plan, for Board approval, that:
1. Evaluates significant organizational activities;
 2. Applies audit resources in an efficient manner;
 3. Provides reasonable assurance to the Board that management has developed and is maintaining an effective system of internal control.
- E. Audit findings resulting from the evaluation of the systems of internal control and continuing operations will be communicated to the Board and CEO.

VI. Reporting

- A. On an annual basis, an audit plan will be developed and submitted by the Vice President – Administration to the Board for approval.
- B. The Harper, Rains, Stokes & Knight firm will communicate with the Board regarding audit issues and findings.

F. Use of Agents, Consultants and Packagers

AgPreference, ACA uses agents and consultants to assist borrowers in assembling their financial information. Unsolicited loan proposals presented by private consultants may be considered; however, the application will be analyzed and presented by an Association Loan Officer.

G. Organizational Structure.

AgPreference, ACA (the Association) is a cooperative lending institution, authorized by the Farm Credit Act, and owned by the members it serves.

H. Loan Officers' Qualifications.

Russell Allard, Senior Vice President – Chief Lending Officer, will be in charge of the guaranteed loan program. Mr. Allard has twenty-four (24) years of experience in the field of agriculture lending and thirteen- (13) year's experience in experience in processing FSA Guaranteed loans.

The following loan officers will be involved in the FSA Guaranteed Loan Program:

Jack Stone, 13 years experience in the field of agricultural lending and in processing FSA Guarantee Loans.

Ira Hopkins, ACA Vice President, has 9 years experience in the field of agriculture, and approximately 7 years experience in processing FSA Guaranteed Loans.

Diane R. Beach, Vice President, Lending has 9 years experience in the field of agriculture and approximately 5 years experience in processing FSA Guaranteed Loans.

Jonrob Challacombe, Loan Officer, has 2 years experience in the field of agriculture and approximately 2 years experience in processing FSA Guaranteed Loans.

Gregory A. Durbin, Credit Analyst, Correspondent Lending, has 1 years experience in the field of agriculture and approximately 1 years experience in processing FSA Guaranteed Loans.

I. Monitoring Compliance with FSA Requirements

The loan officers are responsible for assuring that all FSA requirements, including reporting requirements, have been met. The Association's AICR group monitors compliance with FSA requirements and notifies the loan officer and senior management of any deficiencies.

J. Investigation of Environmental Issues

The Lender will work with the Oklahoma State FSA Office to assure environmental policies and procedures are in compliance with FSA requirements. Certain types of operations are more likely to have environmental problems. Large livestock operations, those that use large amounts of pesticides and fertilizers, and those with underground storage tanks are higher than normal environmental risks and will be thoroughly evaluated.

Appraisal reports will state any and all evidence of environmental issues that the appraiser notes during inspection and assign a rating of high, medium or low risk. During the initial inspection, the appraiser will look for indications of environmental concerns, such as soil conditions in the area that might suggest contamination or the presence of underground storage tanks. In all cases, the borrower is required to complete a questionnaire that contains information regarding environmental issues on the borrower's real estate and facilities.

Where either the questionnaire or the inspection indicates further investigation is necessary, the appraiser typically consults with the Senior Loan Officer to determine whether further investigation is needed

If environmental issues do arise, FSA and the NRCS will be notified. A site visit is arranged between all parties concerned and the problem is evaluated to determine whether to continue with the loan, subject to conditions, hire an environmental professional to conduct a Site Assessment, or deny the loan.

K. Requesting a Guarantee

Before submitting an application, the Lender will make a site inspection to assess the suitability of the farm and complete environmental due diligence, as appropriate.

When requesting a guarantee, the Lender will submit the following information to FSA:

1. A complete "Preferred Lender Application for Guarantee" (FSA-1980-28);
2. A complete loan narrative, discussing the "5 Cs of Credit" and including a description of the location of all farmed land;
3. If Interest Assistance is requested, a completed Part G of "Application for Guarantee" (FSA-1980-25), projected cash flow, and current balance sheet; and
4. When the applicant is an entity, the names, social security numbers, and percent ownership for each entity member (entity information will be addressed in the loan narrative).

II. LOAN ANALYSIS/ UNDERWRITING

The Lender uses its internally developed Customer Service Manager (CSM) and IBS computer loan analysis system. This system is required for all borrowers with more than \$100,000 credit with the Lender and for any credit not meeting all credit standards. An FSA guarantee will normally be requested for those cases that do not meet all the Lender's credit standards.

The analysis for an application where a guarantee is requested will be substantially similar to the analysis performed for a similar unguaranteed loan application. If a loan exhibits weaknesses in a credit factor, the loan narrative shall clearly discuss how the weakness will be offset by other strengths and compensating factors. The loan narrative analysis will address all credit factors and conformance to standards, and will also include a description of the location of all farmed land. The depth of the narrative will be such that a reasonable person, knowledgeable and experienced in the extension of credit, would understand the loan and conclude that the credit risk had been sufficiently analyzed.

A. Management Ability/Credit History Analysis

The applicant's management ability, character and credit history are significant parts of the credit decision. A thorough evaluation is especially critical when the Lender is considering extending credit to a new customer. The loan officer to evaluate the applicant's ability to manage the operation and to determine the suitability of the land and facilities to the loan request will conduct a field visit.

Required credit references. A credit report from TRW or another credit reporting bureau is included and maintained in the credit file for all new borrower applications and all loans that have any significant weakness. A credit report is required for any loan considered for an FSA guarantee. Phone or mail will verify debts in excess of \$5,000 not reflected on the credit report. A UCC lien search in the applicant's county of residence and the County Clerk of Oklahoma County is used to further verify debt and to confirm that all debts are accounted.

An applicant's credit history will be used as a part of the analysis and if it reflects a bankruptcy, charge off or repossession these will be considered in the approval process. If there is slow pay and the applicant has unforeseen circumstances, a letter of explanation will be requested, if not provided.

Young or beginning farmers. The extension of credit to young and beginning farmers is a priority for the Association. Loans to young and beginning farmers must meet the same underwriting standards as other applicants, and will be considered for an FSA guarantee.

Previous participation in government lending programs. If the applicant discloses previous participation in government lending programs, the Lender will call or write the agency involved and verify repayment performance. If FSA credit is involved, the Lender will verify the applicant's continued eligibility. The agency reference must indicate acceptable credit and borrower compliance with loan terms, or the loan request will be denied.

B. Capacity Analysis

The applicant should generate cash flow / net earnings to meet obligations to all creditors as they come due and, in addition, provide reasonable margin for capital replacement, living expenses, capital expenditures, and contingencies.

Capital Debt Repayment Capacity (CDRC) analysis is typically required on all loans when the operation has capital and/or carryover debt. Differential analysis may be utilized in the decision to complete a CDRC analysis if the risk of capital or carryover items is insignificant to overall repayment capacity.

Emphasis will be placed on the following ratios when analyzing the Capacity Credit Factor. Loan officers should use judgement in applying the most applicable approach for each loan. The CDRC and ROA will be best used for farm loans to full-time farmers. The PITI and TMO ratios will be best used for Country Living Loans. The CDRC and TMO will best fit the part-time farmer category.

Crops, Cow/Calf Operations, Stockers, and Diversified Operator

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
Farmer	CDRC	125%	>140%	115%-140%	<115%
	ROA	8%	>10%	6%-10%	<6%
Non Farmer	CDRC	125%	>140%	115%-140%	<115%
	PITI	25%	<15%	15%-25%	>25%
	TMO	35%	<25%	25%-35%	>35%

Capital

Crops

The applicant will have adequate risk-bearing capacity to sustain normal operations over the term of the loan and protect the lender from undue risk.

Due to the nature of crop production in Southwest Oklahoma, highly leveraged operations carry undue risk to the Association. Emphasis will be placed on the following ratios when analyzing crop production applications.

Targets and Risk Ranges- Capital Ratios

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
Farmer	Current Ratio	>1.25:1	>1.8:1	1.2 : 1 – 1.8 : 1	<1.2: 1
	Owner Equity	>50%	>60%	40% - 60%	<40%
Non Farmer	Owner Equity	>45%	>50%	35% - 50%	<35%

Cow/Calf Operations

The applicant will have adequate risk-bearing capacity to sustain normal operations over the term of the loan and protect the lender from undue risk.

Due to the nature of cow/calf operations, the liquidity ratios will fluctuate more due to the time involved in the maturing of the calf crop. The following risk ranges are calculated as of loan inception.

Targets and Risk Ranges – Capital Ratios

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
Farmer	Current Ratio	>1.25:1	>1.6 : 1	1.0 : 1 – 1.6 : 1	<1.0 : 1
	Owner Equity	>50%	>60%	40% - 60%	<40%
Non Farmer	Owner Equity	>45%	>50%	35% - 50%	<35%

Stockers

The applicant will have adequate risk-bearing capacity to sustain normal operations over the term of the loan and protect the lender from undue risk.

The owner's equity and the current ratio standards are reduced due to the compensation factor of liquidity of the loan and the self-liquidating nature of the loan. Capital standards are based on financial ratings with livestock purchased.

Targets and Risk Ranges – Capital Ratios

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
Farmer	Current Ratio	>1.25:1	>1.8 : 1	1.2 : 1 – 1.8 : 1	<1.2 : 1
	Owner Equity	>50%	>60%	40% - 60%	<40%
Non Farmer	Owner Equity	>45%	>50%	35% - 50%	<35%

Diversified Operator

The applicant will have adequate risk-bearing capacity to sustain normal operations over the term of the loan and protect the lender from undue risk.

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
Farmer	Current Ratio	>1.10:1	>1.6 : 1	1.0 : 1 – 1.6 : 1	<1.0 : 1
	Owner Equity	>40%	>50%	30% - 50%	<30%
Non Farmer	Owner Equity	>40%	>45%	30% - 45%	<30%

Initially, three years of previous balance sheets and income statements will be gathered from all applicants for analysis and credit underwriting.

Collateral Analysis

The amount of collateral required will reasonably protect the lender over the term of the loan, provide necessary control of equity and repayment, and leave the borrower in a position to constructively manage the business.

Collateral for long term loans for real estate purchases will consist of a first lien on real estate, intermediate term loans may be secured by machinery/equipment or other capital items, operating loans by liens on crops, livestock, or receivables. Loans for other purposes may be secured by junior liens on any of the above referenced collateral.

Target and Risk Ranges – Real Estate Collateral

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
Farm	Loan / AV	<55%	<50%	50% - 65%	>65%
Home	Loan / AV	<70%	<55%	55% - 75%	>75%

Primary collateral for operating loans will be a first lien on the assets being financed and/or those assets that provide the source of loan repayment.

Target and Risk Ranges – Chattel Loan Collateral

Classification	Indicator	Target	Low Risk	Moderate Risk	High Risk
NRV	Margin	>35%	>40%	30% - 40%	<30%

Term Debt Financing – Terms and Conditions

- When chattel only are security-intermediate term loans will be fully amortized over a period of 3 – 7 years depending on the economic life of the assets financed. If real estate is part of the security a longer amortization may be appropriate.
- Real estate loans will be fully amortized over a period of 6-33 years.
- Payment frequency will be based on the income stream of the applicant.
- Insurance may be required on depreciable assets in an amount not less than the contributory value of improvements, or the loan value on equipment, with AgPreference, ACA named as loss payee.

Operating Loans – Terms and Conditions

- Operating loans may be structured as a budgeted loan or a revolving line of credit with maturities of 1-5 years.

- A detailed loan agreement will set out the terms and conditions of the loan, which will include frequency of field inspections and other provisions appropriate for the loan.

Insurance. Insurance will be required when needed to protect the interests of the Lender. Crop insurance will be required whenever crops are a large portion of the security and the Loan/Value, excluding growing crops, is greater than 70%. Real property insurance is required anytime improvements constitute a large portion of the real estate value.

Appraisal guidelines. Appraisals will be obtained on all primary security and will be performed by a qualified appraiser. The loan officer in charge of the credit will not conduct the appraisal.

Crops are valued at cash input costs unless they are within 60 days of harvest at which time their value is calculated at 60% of estimated market receipts.

Equipment is itemized on a property list, described in detail and appraised based on industry standards, local professionals having equipment knowledge, and the Association's database. Cattle are valued from current auction values at selected sights.

All real estate and chattel appraisals, regardless of size, will be in compliance with USPAP. Appraisals for all real estate loans of \$250,000 or more are performed by State Certified General Appraisers. A qualified appraiser, who possesses sufficient experience and training to estimate the value of agricultural property, will perform real estate appraisals for loan transactions less than \$250,000. Appraisals must be current or no more than twelve (12) months old unless the market is stable and the appraisal is updated. Likewise, qualified appraisers will perform all chattel appraisals regardless of transaction value.

Verifying ownership of assets. The ownership of assets being pledged as collateral is verified by several means. Real estate ownership is verified with Title Insurance or **attorneys** title opinion. Visual inspection, bill of sale or a search of Uniform Commercial Code (UCC) filings accomplishes ownership of chattel property. If doubt exists, the depreciation schedule of the applicant's income tax return will be reviewed. Documentation of the above verifications is entered into the file for record.

Verifications of prior liens. Prior liens are verified with the use of a five-(5) year UCC lien search in the county of residence and the Oklahoma County Clerk. If a lien is noted, the Lender contacts the secured creditor to verify the lien.

Requirements for perfecting liens. A mortgage is filed of record to perfect real estate liens. UCC-1 forms are filed to perfect liens on chattels. Prior to the above, a preliminary title opinion or title insurance binder is requested to insure filing proper position of real estate. After filings are completed, a final title opinion or title insurance is requested to verify first mortgage position on real estate. Preliminary and final UCC lien searches are implemented to verify a lien position on chattels.

When liens are taken on fixtures, they are filed with the same standards. UCC liens are always tied to the note and security agreement. Model and serial numbers are required for equipment.

E. Conditions

Loan conditions address loan purpose, loan amount, loan structure, pricing, scope of financing or requirements unique to a loan. These conditions need to balance credit risk with effective loan conditions and controls. Conditions are added as loan risk increases. The conditions of approval are based on the analysis of the credit factors to identify applicant creditworthiness and risk. Examples include additional monitoring, collateral, insurance, etc. to reduce the risk exposure of any particular loan. A loan agreement will be completed, if necessary, on a case-by-case basis.

Disbursement of loan proceeds. The Association has several ways to disburse proceeds and monitor transactions of the loan. These include the ability to directly draft the Line of Credit, obtain a check for deposit, direct wire, or a combination of the above. A ledger on each loan is in place to document date, amount and use of proceeds.

III. LOAN SERVICING / ADMINISTRATION SYSTEM

A. General Servicing

Borrower monitoring and supervision. Borrowers will be monitored for financial performance to determine the level of risk to the Lender. The condition of agricultural loans will be reviewed on an annual basis.

The borrower will complete and submit annually documentation that includes the following:

- Updated appraisals of livestock and equipment.
- A current balance sheet for borrower, entity members and any personal guarantors.
- An analysis of current assets, crop condition, livestock conditions, prices and the likelihood of payment of operating credit and term debt obligations due in the current cycle.
- An income and expense statement, such as IRS Form 1040, Schedule C or F, Farm Equity Manager report, customer's computerized records or similar form.
- A comparison of projected to actual financial results and trends.
- Cash flow projection.
- Review of capital purchase and consumer credit needs projected for next year.
- Assessment of farm and farmstead condition.
- Annual county records search.

EXCEPTIONS: (1) Borrowers with term loans secured by real estate, which have performed as agreed, may be required by the Association to submit only a balance sheet each year. (2) Borrowers who do not borrow money for operating needs may be required to submit a financial statement every three years.

Monitoring security. Acquisition and lien priority of planned capital purchase or ownership of basic security will be verified. Methods for verification include physical inspection visit by loan

officer, bill of sale, vehicle title, deed, lien search or another method as appropriate. Cattle will be marked for identification.

Proceeds from the sale of security will be applied to the debt according to lien priority. Where multiple loans are secured by a blanket lien on chattel security, crop and livestock income will be applied to the annual operating debt incurred to produce that item before being used to pay term debt installments.

The source of proceeds, including bushels, weights, and size will be verified with receipts in those cases where the borrower's records are not accurate. Income from sales in one cycle that is not received until the following cycle (e.g., overlap income, retains, dividends) will be applied to any outstanding debt associated with the production of that commodity.

Term debt collateral sales proceeds will not be used to make scheduled term debt installments.

Advances on lines of credit. Advance requests may be made by telephone, electronic mail or other method. The request and its use will be acknowledged in writing on an Advance Record by the borrower during his/her next physical office visit, or by copy of a check written on the account where disbursements are deposited. Each year, the ability to meet all financial obligations will be documented with an annual cash flow projection before the operation is financed for another year.

The Association's support staff makes loan advances and payments. Loan ledgers are updated daily for advances and payments. The Association also utilizes cash flows and income and expense reports to monitor and ensure the borrowers are following their prospective farm plan. Livestock operation lines of credit are also tracked using livestock inventory control records and inspection reports.

Emergency advances. A moderate advance in excess of the cash flow budget amount may be made when an aberration causes expenses to exceed the original budgeted amount, and the advance is necessary to avoid significant damage to or loss of the loan security. The reason for the advance and the financial benefit to be derived from it will be documented in the loan file.

Construction loans. Loans made for development will require that the Lender be provided with a copy of plans, specifications and construction contracts. Advances on construction loans will be made based on the level of completion after verification by appraiser visual inspection.

Partial releases. Security may be released without FSA concurrence when the security item is being sold for market value and the proceeds will be applied to the loan in accordance with lien priorities or when the security item has no present or prospective value.

Cull and replacement policy. Breeding livestock sales proceeds will be treated as normal income when herd size and value is maintained at a level at or above that, which existed at loan inception as verified by periodic inspection.

All other releases without compensation will meet FSA regulatory requirements and require loan committee approval. Details of the transaction will be documented in the credit file.

Releases of borrowers. Obligated parties, including entity members, personal guarantors, cosigners, or joint operators, are not released from liability except when the debt has been paid or refinanced, or on a case-by-case basis, with executive loan committee concurrence and FSA written approval.

Additional loans. The Lender may make consumer, residential and commercial loans to guaranteed loan customers as part of ongoing relationships. The Association will notify FSA of any non-guaranteed loans that are originated.

Lender reporting. Loan status reports will be provided to FSA semi-annually, and default status reports will be provided 45 days after default and every 60 days thereafter until the loan is paid current.

B. Delinquencies

Distressed Loan Restructuring Policy

I. Philosophy

A qualified lender, as defined below, has an obligation to borrowers, stockholders and investors in the Farm Credit System to collect all debts owed to the qualified lender, and all borrowers are expected to comply with contractual loan terms and conditions. In those instances where a qualified lender determines that the borrower's loan is a distressed loan, the qualified lender shall consider restructuring the loan in accordance with policy.

II. Objective/Purpose

This policy shall constitute the Board of Directors (Board) of AgPreference, ACA (Association) direction to Management for the extension and administration of the restructuring of distressed loans made by qualified lenders.

III. Scope

This policy shall apply to the Association, and it's wholly owned subsidiaries.

IV. Authority

This policy is consistent with the U.S. Ag Bank, ACA policy and in accordance with Farm Credit Administration regulations, and may only be amended with the approval of the FCBW Board of Directors. However, except as may be required by law, the Board delegates management authority to the Chief Executive Officer, who may re-delegate authorities, as appropriate.

V. Policy Statement/Operating Principles

A. Definitions:

1. Qualified Lender

- a. An institution of the Farm Credit System that makes loans (as the term loan(s) is defined below), excluding CoBank, ACB; and

- b. Other Financing Institutions (OFI), as defined in Section 1.7(b)(1)(B) of the Farm Credit Act of 1971, as amended, but only with respect to loans discounted or pledged by such OFI to the FCBW.
- 2. Loan - The term "loan" means a loan made to a farmer, rancher, or producer, or harvester of aquatic products, for an agricultural or aquatic purpose and other credit needs of the borrower, including financing for basic processing and marketing directly related to the borrower's operations and those of other eligible farmers, ranchers, producers or harvesters of aquatic products.
- 3. Distressed Loan -
 - a. A loan that the borrower does not have the financial capacity to pay according to its terms, and
 - b. That exhibits one or more of the following characteristics:
 - (1) The borrower is demonstrating adverse financial and repayment trends.
 - (2) The loan is delinquent or past due under the terms of the loan contract.
 - (3) One or both of the factors listed in subparagraphs (1) and (2), together with inadequate collateralization, present a high probability of loss to the lender.
- 4. Restructuring - "Restructuring" includes rescheduling, re-amortization, renewal, deferral of principal or interest, monetary concessions, and the taking of any other action to modify the terms of, or forbear on, a distressed loan in any way that will make it probable that the operations of the borrower will become financially viable.
- 5. Application for Restructuring - A written request:
 - a. From a borrower for the restructuring of a distressed loan in accordance with a preliminary restructuring plan proposed by the borrower as part of the application;
 - b. Submitted on the appropriate forms prescribed by the lender; and
 - c. Accompanied by sufficient financial information and repayment projections as required by the lender to support a sound credit decision.
- 6. Cost of Restructuring - In determining whether the potential cost to the lender of restructuring a distressed loan is less than or equal to the potential cost of foreclosure, the lender shall consider the following:
 - a. The present value of interest income and principal foregone by the lender in carrying out the restructuring plan;

- b. Reasonable and necessary administrative expenses involved in working with the borrower to finalize and implement the restructuring plan, including attorneys' fees, costs, and other expenses advanced by the lender pursuant to the loan documents;
 - c. Whether the borrower has presented a preliminary restructuring plan and cash-flow analysis taking into account income from all sources to be applied to the debt and all assets to be pledged, showing a reasonable probability that orderly debt retirement will occur as a result of the proposed restructuring;
 - d. Whether the borrower has furnished or is willing to furnish complete and current financial statements in a form acceptable to the lender; and
 - e. Any other factors considered relevant by the lender that bear upon the individual restructuring decision, including, but not limited to the following:
 - (1) Whether the borrower is applying all income over and above necessary and reasonable living and operating expenses to the payment of primary obligations;
 - (2) Whether the borrower has the financial capacity and the management skills to protect the collateral from diversion, dissipation, or deterioration;
 - (3) Whether the borrower is capable of working out existing financial difficulties, re-establishing a viable operation, and repaying the loan on a rescheduled basis; and
 - (4) In the case of a distressed loan that is not delinquent, whether restructuring consistent with sound lending practices may be taken to reasonably ensure that the loan will not become a loan that is necessary to place in non-accrual status.
7. Cost of Foreclosure - Cost of foreclosure includes:
- a. The difference between the outstanding balance due on a loan made by the qualified lender and the liquidation value of the loan, taking into consideration the borrower's repayment capacity and the liquidation value of the collateral used to secure the loan;
 - b. The estimated cost of maintaining a loan as a high-risk asset;
 - c. The estimated cost of administrative and legal actions necessary to foreclose a loan and dispose of property acquired as the result of the foreclosure, including attorneys' fees and court costs;
 - d. The estimated cost of changes in the value of collateral used to secure a loan during the period beginning on the date of the initiation of an action to foreclose

or liquidate the loan and ending on the date of the disposition of the collateral;
and,

- e. All other costs incurred as the result of the foreclosure or liquidation of a loan.

8. Foreclosure Proceeding -

- a. A foreclosure or similar legal proceeding to enforce a lien on property, whether real or personal, that secures a non-accrual or distressed loan; or,
- b. The seizing of and realizing on non-real property collateral other than stock, participation certificates, allocated surplus, or investments in equity reserve in a Farm Credit System institution.

B. Credit Review Committees

The Board of the U. S. AgBank, ACA each Production Credit Association, and each Federal Land Credit Association, shall establish one or more credit review committees under the provisions of the Agricultural Credit Act of 1987. Such committees will review, upon written request, adverse decisions, which are eligible for review.

C. Preventive Actions

Nothing contained in this policy shall be construed to prevent any qualified lender from enforcing any contractual provisions that allow the qualified lender to foreclose a loan, or from taking such other lawful action as the qualified lender deems appropriate, if the qualified lender has reasonable grounds to believe that the loan collateral will be destroyed, dissipated, consumed, spent, concealed, or permanently removed from the state in which the collateral is located.

D. Notice to Borrowers

On a determination by a qualified lender that a loan is or has become a distressed loan, but no later than 45 days before an institution begins foreclosure proceedings, the qualified lender shall provide written notice to the borrower that the loan may be suitable for restructuring and include with such notice:

- 1. A copy of this restructuring policy; and
- 2. The appropriate forms necessary to enable the borrower to submit an application for restructuring the loan.

E. Application Procedures

Any borrower who has been notified that his loan may be suitable for restructuring may submit an application. To apply, the borrower shall submit an application for restructuring as defined herein to the appropriate qualified lender. To be considered, an application must be received by the qualified lender in accordance with the time period

set by the qualified lender but the time period allowed for a borrower to submit an application should not be less than 45 days from the date of the qualified lender's first notice to the borrower that the loan may be suitable for restructuring, plus an additional three days if the notice is mailed. If the qualified lender does not receive an application within the set time period, the qualified lender may begin foreclosure proceedings and will be under no obligation to consider an application after foreclosure proceedings have commenced.

F. Meetings

On determination by a qualified lender that a loan is or has become a distressed loan, the qualified lender shall provide a reasonable opportunity for the borrower to personally meet with a representative of the qualified lender:

1. To review the status of the loan, the financial condition of the borrower, and the suitability of the loan for restructuring; and
2. With respect to a loan that is in non-accrual status, to develop a plan for restructuring the loan if the loan is suitable for restructuring.

G. Restructuring Determination

When a qualified lender receives an application for restructuring from a borrower and the qualified lender determines that the loan is a distressed loan, the qualified lender shall determine whether or not to restructure the loan, taking into consideration the potential cost of restructuring the loan and the potential cost of foreclosure as those terms are defined in this policy.

If a qualified lender determines, in its sole discretion, that the potential cost to the qualified lender of restructuring the loan in accordance with a proposed restructuring plan is less than or equal to the potential cost of foreclosure, the qualified lender shall restructure the loan in accordance with the plan. The term "cost" as used herein includes all factors relevant to making a sound credit decision.

This policy shall not prevent a qualified lender from proposing a restructuring plan for a borrower, but the qualified lender is under no obligation to do so. A qualified lender is not required to consider a distressed loan for restructuring unless the borrower submits an application for restructuring pursuant to this policy.

If two or more restructuring alternatives are available to a qualified lender under this policy with respect to a distressed loan, one or more of which alternatives may be proposed by the qualified lender, the qualified lender shall restructure the loan in conformity with the alternative that results in the least cost to the qualified lender.

H. Notice of Decision

The borrower's application for restructuring shall be processed and acted upon expeditiously in conformance with normal loan processing procedures. Upon taking

action on an application for restructuring, the qualified lender shall provide prompt written notice by certified mail or in any manner that requires a primary obligor to acknowledge receipt of its decision. The notice shall include the terms and conditions of the restructuring if approved, or the reasons for the denial if not approved. The notice shall also advise the borrower of his right to receive a review as provided for herein.

I. Review

A borrower who has received notice of a decision to deny an application for restructuring a distressed loan may request a review of such decision by the appropriate credit review committee. Any request for review must be made in writing and received within 7 days (plus an additional 3 days if the qualified lender's notice of denial is mailed) of the date of the qualified lender's written notice of its denial of restructuring. The borrower may appear in person before the credit review committee, and may be accompanied by counsel or by any other representative of such person's choice, to seek a reversal of the decision on the application under review. The borrower may submit any relevant documents or other information to support the information in the restructuring application. Review by the credit review committee will be limited to the application, as supplemented by relevant documents or evidence supporting the information contained in the application. Documents or evidence containing new information that was not included in the application may not be submitted by the applicant and will not be considered by the credit review committee in reviewing the application for restructuring.

A request for review filed with the credit review committee under this policy may include a request for an independent appraisal by an accredited appraiser. If such a request is made, the credit review committee shall present the borrower with a list of three appraisers approved by the lender from which the borrower shall select an appraiser to conduct the appraisal, the cost of which shall be borne by the borrower, and shall consider the result of such appraisal in any final determination with respect to the application for restructuring. A copy of any appraisal made pursuant hereto shall be provided to the borrower and the credit review committee prior to the credit review committee meeting.

The credit review committee shall reach a decision on the application for restructuring in its sole discretion and such decision shall be the final decision of the lender with respect to restructuring of the loan. The credit review committee shall promptly notify the borrower in writing of the committee's decision and the reasons therefore.

J. Effect of Restructuring on Borrower Stock

If a qualified lender forgives and writes off any of the principal outstanding on the loan made to any borrower in connection with restructuring of a loan pursuant to this policy, the FCS institution of which the borrower is a member and stockholder shall cancel the same dollar amount of borrower stock held by the borrower in respect to the loan to maintain the borrower's membership and voting interest in the applicable FCS institution, if the borrower was a stockholder at the time of the restructuring.

K. Right of First Refusal To Purchase or Lease Real Estate Property

The purpose is to grant the previous owner the right of first refusal in accordance with the Farm Credit Act of 1971 as amended and Farm Credit Regulations, to purchase or lease acquired real estate property. Agricultural real estate that is acquired by any Ninth Farm Credit District institution as a result of a loan foreclosure or a voluntary conveyance by a previous owner who, as determined by the institution, does not have the financial resources to avoid foreclosure shall be subject to the right of first refusal of the previous owner to repurchase or lease the property.

VI. Reporting Requirements

Total dollar volume on restructured loan activity will be reported to the Board on an annual basis.

If the annual analysis or any information provided by the borrower indicates that the borrower will have difficulty meeting their obligations, servicing options to improve the customer's situation will be explored before actual default occurs.

Reminder notices. For annual payment borrowers, reminder notices are mailed 30 days prior to the installment due date. Reminder notices are not mailed for monthly or quarterly payment borrowers.

Default notices. 10 days past due: Delinquency notices are mailed and the loan administration staff notifies responsible loan officers. 20 days past due: A packet is sent to the borrower containing the proper notices and process of the right to restructure. The borrowers default window begins at this time. After a 20-day packet has been sent the Association will adhere to the servicing guidelines as prescribe as the Farm Credit Act as amended and the Farm Service Agency.

Debt Write-down. Write-downs of guaranteed loans will require written approval of FSA.

C. **Other Servicing Actions**

Non-monetary default. Upon occurrence of unauthorized use of loan funds, insurance lapse, security depletion, death, abandonment, conversion, etc., notice of default is mailed and the borrower is provided 30 days to take corrective action. A decision to liquidate or restructure will be made within 120 days of the installment due date.

Acceleration. Acceleration will be automatic at the Lender's option upon borrower violation of any loan terms and written notification to the borrower.

Bankruptcy. In the event of bankruptcy, the Lender will undertake all actions necessary to protect and preserve the collateral.

D. Terminations, Liquidations, and Final Loss Claims. Supporting documentation will be developed, meeting FSA regulatory requirements for any loss claim. This will include a plan of

liquidation, including costs of liquidation and expected time frames. The liquidation plan will be kept in the borrower's case file.

Voluntary Liquidation. The borrower will be provided 30 days from acceleration to liquidate or agree in writing to a plan for voluntary liquidation of all loan collateral. Voluntary plans will include contingencies for failure to meet plan milestones. A release of the borrower from continued liability may be agreed to as part of a voluntary plan if written agreement is obtained from the FSA State office.

Protective advances. Moderate protective advances not to exceed \$10,000 without FSA concurrence may be made to protect the value of the collateral.

Acquisition of real estate security. The responsible loan officer or workout officer will review the collateral for possible environmental liability. If environmental problems are found, the executive loan committee will make a decision on the acceptance of a deed in lieu of foreclosure or assessment of protective bids to be made at foreclosure. For FSA guaranteed loans, FSA will be consulted regarding the method of sale or establishing foreclosure bids on any properties whose value has been substantially reduced by the presence of hazardous waste.

Judgments. Judgments will be sought in all forced liquidations if the assets and resources of the borrower and/or guarantors are available, or potentially available, to satisfy the cost of the action.

Release from liability. Borrowers may be released from liability after all security is liquidated and all sources of collection of the unpaid debt are pursued in the case of a guaranteed loan. The loan officer will obtain FSA written concurrence when the borrower is to be released of liability on guaranteed loans. Loans made with the FSA application form 1980-28 with the revision date of July 20, 2001 are subject to Federal offset. The lender will notify the borrower when subject to offset.